KPMG

IFRS Today

Our series on the most topical issues in IFRS® Standards and financial reporting

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PODCAST TRANSCRIPT

COVID-19 – Areas of focus for 2021 year ends

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Reinhard Dotzlaw
Partner, Global IFRS leader

KPMG in Canada

Introduction

Hello and welcome. I'm Reinhard Dotzlaw, a partner at KPMG in Canada and global IFRS leader.

In this second year of the COVID pandemic, the impacts and risks for companies are changing. These impacts range from continued economic uncertainty to changes in consumer demand, disrupted supply chains and staff shortages. We are getting used to new hybrid working patterns; some government support packages are ending; and we're also seeing a rise in merger and acquisition activity.

So there is a lot for companies to consider as they prepare their year-end financial reports. If you have a December year end, you'll already be thinking about how you'll account for the pandemic's effects, and the impact on your company's financial performance, financial position and cash flows.

And we'd like to help. I've asked members of our International Standards Group to share their thoughts on the key questions to ask about going concern, impairment, rent concessions, government assistance and provisions.

Each of them will introduce themselves and will then take you through some key actions. We'll be brief and to the point, and we'll point you to some helpful resources at the end.

Gabriela Kegalj
Partner

KPMG in Canada

The income statement

I'm Gabriela Kegalj, and I'd like to talk about communicating the impacts of COVID-19 on your financial performance.

The impacts of COVID-19 on so many businesses have been unprecedented and truly extraordinary, so what does it mean for your financial statements – your performance statement, in particular?

While nothing in the financial statements can be labelled as *extraordinary*, telling your story well will help users better understand how COVID-19 has impacted the company's performance. It is particularly important that the front end and the back end of your annual report provide consistent information.

The key questions are:

- Where are the impacts best communicated? The management commentary? The income statement or the notes only?
- Are you being neutral and unbiased in your assessment of the impacts? If you want to highlight incremental costs, are you prepared to highlight additional income?
- Have you considered the regulators' expectations?

Last but not least – stick to historical financial information. There is no place in the financial statements for notional or 'as-if' numbers to show how your company might have performed absent the pandemic. It isn't about what could have happened and how much income you could have earned, it's about what has actually happened.

Chris Spall
Partner

KPMG International Standards Group

Expected credit losses

I'm Chris Spall, and I'd like to discuss the challenge of estimating credit losses this year end.

Companies have to record today credit losses they expect to crystallise in the future.

And the economic disruption and uncertainty we're facing makes that much harder to do.

It involves considering, based on what we know today, different plausible future scenarios and then estimating how likely each one is and its impact on credit losses.

ECLs need to reflect current conditions and future expectations, so think about:

- What sources have you used to form your view?
- How have your models and assumptions been updated?
- How has the credit risk of borrowers and other debtors been reassessed?

The operative word is *expected*. You can't just wait until a customer stops paying you before you book a loss. That applies also to trade debtors – so if your models for trade receivables give a very large weighting to historical data, you'll need to update them to reflect the impact of the pandemic.

Julia LaPointe
Director

KPMG International Standards Group

Government assistance

I'm Julia LaPointe, and I'd like to talk to you about the accounting for government assistance programmes that have been passed around the world in response to COVID-19.

There's a standard that covers the accounting for government assistance – IAS 20 – and it has a specific threshold for recognising a grant. But there are some questions to ask before you apply IAS 20 in your year-end reporting.

Three key questions drive the accounting:

– What's the right bit of guidance? Is it IAS 20?

– If it *is* a government grant, when do I first account for it?

– How do I recognise that grant in the P&L?

And all of this is in the context of making sure your financial statements clearly communicate the impact of all of this government assistance to your stakeholders.

Avi Victor
Director

KPMG International Standards Group

Impairment of assets

I'm Avi Victor, and I'm looking at the impact of COVID-19 on impairment testing of non-financial assets.

During the pandemic, some companies changed their business model – for example, by moving their business online or by changing their products or services. Many countries are showing signs of economic recovery and resumed growth and, for some companies, the level of uncertainty and risk arising from the pandemic has decreased significantly.

These are indicators that impairment losses recognised in previous periods may no longer exist or may have decreased. You need to assess at each reporting date – both annual and interim – whether any indicators of impairment reversal exist. If such an indicator exists, you need to estimate the recoverable amount of the previously impaired asset or cash-generating unit.

In terms of the key assumptions used to calculate the recoverable amount – you'll need to consider whether these assumptions should be updated to reflect recent changes to the company's business model or changes in the economic and financial situation. Then, you'll need to consider if these assumptions, including the estimation uncertainty surrounding them, are appropriately disclosed.

Lastly, if there is an indicator of an impairment reversal, you also need to review whether the asset's remaining useful life and residual value remain appropriate.

Roanne Hasegawa
Senior manager

KPMG International Standards Group

Risk and uncertainties

I'm Roanne Hasegawa, and I'd like to consider how the risks and uncertainty caused by the pandemic will impact your accounting and disclosures for financial instruments.

The number one issue for most investors is going to be whether and how the company is going to survive the pandemic and come out the other side. Critical to that is liquidity risk – that's whether you have the funding in place to support your business – but you also need to be thinking about credit risk – that's whether you're going to recover the amounts owed to you by others – and market risk – that's the impact of currency risk, interest rate risk and other price risk on financial instruments.

The key questions to ask are:

- What exposure do you have to liquidity risk, credit risk and market risk?
- How are you managing these risks?
- How does that feed into how you measure the related financial instruments?
- How will you provide transparent disclosures?

That's going to mean looking at updating and expanding disclosures – especially compared to what might have been included in previous annual reports.

Brian O'Donovan
Partner

KPMG International Standards Group

Rent concessions

I'm Brian O'Donovan – I'm here to talk about rent concessions.

We saw a lot of these when COVID-19 first hit – and we've continued to see them throughout 2021.

Last year, the IASB amended the leases standard to provide practical relief when accounting for rent concessions related to COVID-19.

This relief was very welcome – and very widely used. But there were restrictions – in particular, the relief was time-limited. In fact, it was due to expire earlier this year.

The good news is that the IASB has extended the rent concession relief – it now runs right up to June 2022.

If you're applying the relief – and many of you are – watch out for rent concessions that didn't qualify for the relief initially – but do so now – following the extension. You could have a tricky transition issue to deal with.

We explain this – and much more – in our detailed guidance to rent concessions, which we have fully updated. We've updated our illustrative disclosures too. Essential reading when preparing your 2021 financial statements!

Irina Ipatova
Director

KPMG International Standards Group

Provisions

I'm Irina Ipatova, and I'd like to talk about COVID-19 and accounting for provisions.

Provisions accounting under IFRS Standards is not about putting something aside for a bad day in the future – it's about reflecting a company's existing obligations at the reporting date.

There are three key things to remember when making provisions.

- You can't provide for future operating losses – it's only obligations existing at the year end.
- You need to identify the right triggering event – it may be your own action rather than COVID-19.
- If you're restructuring, you'll need a plan and you'll need to commit to it.

If you are restructuring your business, you'll need a detailed formal plan, and a valid expectation of implementing it, before you make a provision.

My last point on accounting for provisions is this: make sure you're making meaningful and transparent disclosures in the financial statements about uncertainties, judgements and estimates made.

Matthew Cook
Partner

KPMG International Standards Group

Estimating in uncertain times

I'm Matt Cook, and I'd like to talk about making estimates in times of uncertainty.

You should be proactive in planning, and making necessary adjustments to your processes and controls for making estimates. This includes engaging with your audit committee and auditors early and often.

There are three key questions:

- Which estimates are more complex, subjective or uncertain?
- Are the methods, assumptions and data used in these estimates appropriate?
- What do you need to communicate to the users?

In particular, you should bear in mind that because conditions are subject to rapid change:

- the key sources of estimation uncertainty may be different to last year; and
- the degree of variability in key sources of estimation uncertainty may also be greater than in the past.

If an estimate includes assumptions that are highly sensitive to changes in economic conditions, then the range of reasonably possible measurement outcomes is likely to be significant. So it will be crucial that your disclosures help your readers understand the sources of estimation uncertainty and the significant judgements made.

Agnieszka Sekita
Director

KPMG International Standards Group

Going concern

My name is Agnieszka Sekita and the issue I'd like to address is going concern – both the assessment and related disclosures.

COVID-19 continues to impact many companies – creating a multitude of uncertainties and calling into question whether some will even survive. So you need to focus on whether your company has sufficient liquidity to continue to meet its obligations as they fall due. No-one can predict the future accurately and the going concern assessment may not be easy, but investors and regulators are certainly expecting a robust going concern assessment and transparent disclosures of uncertainties. They will want to know how you performed the assessment and the judgements involved.

In particular, there are three things you need to consider:

- whether your budgets and forecasts have been updated for this changing economic environment;
- different economic scenarios, including a worst case scenario; and
- whether your mitigating plans are achievable and realistic.

The fact that you could get financing in the past does not mean you can now.

Remember: your going concern disclosures will be scrutinised if you identified material uncertainties, or if it was a close call – which means there are no material uncertainties, but you've made significant judgements in reaching that conclusion.

Reinhard Dotzlaw

Closing comments

Thank you everyone for your insights on financial reporting in these challenging times.

In this podcast, we've highlighted some of the big issues to consider – but we don't stop there. There is much more information and guidance on these subjects and more in our online COVID-19 financial reporting resource centre. We have also produced a COVID-19 supplement to our annual illustrative financial statement disclosures, which illustrates the disclosures you may need to provide on the accounting issues arising from the pandemic. A quick way to find this information is to type KPMG IFRS into your browser, or to follow KPMG IFRS on LinkedIn.

Thank you very much for joining us. Take care and stay safe!

home.kpmg/ifrs

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